

Influencing Business Models and Workplace Innovation to deliver inclusive growth
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Key messages

1. Improving productivity and growth are important for any economy, but their pursuit and wider consequences must be considered in the context of other economic and social objectives, and from the perspectives not just of business and the economy but also of citizens and society.
2. Inclusive growth as a priority should shape analyses of productivity and growth and their role in pursuing and balancing wider economic and social objectives. The concept of inclusive growth is gaining increasing traction in Scotland and elsewhere.
3. Inclusive growth should be defined in terms of participating in, creating and sharing value. Value creation is an under-developed aspect of inclusive growth debates, yet inclusive growth is arguably a distinctive approach to creating value that specifically designs desired outcomes into the value process.
4. Pursuing inclusive growth requires, therefore, a focus on where value is created – within businesses and in workplaces – and a focus on what happens within business and workplaces. This recognition is at the centre of Scotland's commitment to fair work. Fair work is not driven solely by normative considerations – treating workers well – but by acknowledgment of the need to create and share value in ways that work well for all, including business.
5. There are multiple important stakeholders in the business and work landscape, but the role of employers is pivotal. We need to understand better why employers do business, organise and manage people as they do – the logic of their firms - in order to better influence their practice to support fair work, productivity improvement and inclusive growth.
6. Being creative, imaginative and resilient around business, work and skills is important in facing a range of significant future challenges. This is the responsibility of all business and workplace stakeholders, and the public agencies who engage with those stakeholders.
7. All employers face a range of constraints, but employer choice and business decision making matters. A more open discussion is needed about what shapes those choices and their consequences. Much analysis of contemporary and new business models fails to address their broader consequences and externalities.
8. The predominant debate on the objectives of business in recent decades has focussed on maximising shareholder value (MSV). MSV exhibits a clear bias towards the capture of value by shareholders. MSV does not predetermine how value is created, though maximising shareholder returns does have huge implications for value creation options.
9. That is not to say that shareholder capitalism cannot and do not deliver employee benefits. Different business models – for example, some family firms or employee-owned businesses – are more or less likely to deliver for workers and society as well as for business, and large corporates adopt varying practices. But some business models/forms have significantly negative consequence for workers and pose significant externalities – economic and non-economic – on societies.
10. There are tensions and trade-offs between who creates value and who captures value in all business models. Recent trends have widened the gap between those who create value and those who capture it. We need more understanding of how these trade-offs are made –

between pay or investment and profits/dividends – and better ways of measuring the full range of costs and benefits of different arrangements.

11. All businesses necessarily respond to market pressures. There are significant differences, however, in the degree to which businesses are market-focussed or organisationally-focussed, with major implications for workers. Time horizons are crucial in this regard, as are understandings of where and how value is created and realised.
12. Business models are constructed in context. They serve a hierarchy of interests and actors. But business models are choices – they are not inevitable. Firms serving similar markets can and do adopt quite different business models successfully in business terms.
13. Stakeholder-oriented business models may offer a better prospect for delivering inclusive growth. Stakeholder-oriented businesses do not ignore shareholder interest, but sees it in context of other interests. Such approaches can have business and other benefits.
14. Stakeholder-orientation goes much further than CSR, shaping governance, processes, practices, and ways of working that deliver broader benefits to a wider group of stakeholders.
15. Across the wide range of business models, there is huge variation in how people work and are managed. There is, however, a broad acceptance of the importance of human capital as a potential source of competitive advantage, and a recognition of the importance of HR processes and practices. This has spawned a number of ‘best practice’ approaches.
16. Across the extensive HR and people management literatures, there is increasingly explicit recognition of the role of people in value creation, but remarkably attention to the distribution of value outside of what is increasingly seen as an ‘old fashioned’ industrial relations literature.
17. High Performance Work Practices that attempt to increase value creation can, on the evidence, improve performance of workers, but can also impact negatively on workers. The HPWP literature pays little attention, however, to issues of fair work and value capture. There is a need for greater understanding of how and where HPWPs work for businesses, workers and society, but also for better insight as to why so few firms adopt HPWPs.
18. Lean production systems, with their strong focus on reducing waste and improving value creation, can and do deliver business benefits, but can also in some circumstances deliver negative worker outcomes, and there is little research as to how the benefits of lean are distributed between businesses and workers. The benefit of lean systems remains much contested.
19. The theory and practice of leadership has generated an enormous research literature. Very little of this literature, however, examines the central purpose of leadership and objective of leaders within distinctive business model contexts.
20. Compared to the focus on leadership, there is far less attention on management practice (as opposed to the practice of managers). There is, however, a useful research base on the relationship between particular management practices – specifically on the use of monitoring, targets and incentives – and productivity and business performance. While insightful, this literature focusses on a relatively narrow set of practices and does not develop the impact of these practices for workers.

21. Evidence from the management practice literature suggests that there are large numbers of badly managed firms in the UK and elsewhere. The implications for workers are not examined. Competition and presence of better managed firms (e.g. multinationals) helps.
22. While management practices are not examined as configurations within business models and the wider ramifications of these practices (for example, for innovation) are not discussed, this literature usefully highlights that better management practices can create better business outcomes, potentially influencing productivity more than investment in R&D, skills or technology. This finding begs the obvious question as to why some firms don't adopt better practice.
23. There is widespread interest in high involvement/employee engagement approaches that claim to enhance employees' power to make decisions, promote greater information sharing, skills use, autonomy and reward, and enhance employee well-being. There are extensive claims regarding the relationship between engagement, productivity and business performance. The evidence suggests that such approaches can improve the performance of workers although as with HPWPs and lean production, concerns over work intensification have been raised. This literature rarely addresses workers' share in the distribution of value.
24. The benefits of HPWPs and employee engagement are often delivered through the mechanisms of better skills use and better worker motivation. UK evidence suggests that better use of existing skills could enhance productivity, improve motivation and innovation, and diminish the waste of individual and public investments in human capital. The effectiveness or otherwise of skills utilisation is driven by employer behaviour, in terms of the level of demand for higher skills, recruitment and selection approaches, job design and work organisation. Employers appear to lack awareness of skills under-utilisation and have few immediate incentives to address it. The key challenge, is how policy makers can help influence this.
25. One way is to link better use of skills and better deployment of people to innovative business outcomes. Workplace innovation research builds on the knowledge of HPWPs and of learning organisations, though focussing on innovation as a driver of performance, and intervening primarily through job redesign, work organisation and HR practice. At the current stage, research in this area is conceptually ill-defined, with little rigorous assessment of the architecture of practices and processes that deliver discretionary behaviour that supports innovation. The literature has, however, had some success in influencing policymakers. The interests of workers in innovation are often under-specified, driven by job fulfilment rather than an improved share in value capture.
26. The FITwork approach (Fair, Innovative and Transformative work) follows the holistic approach argued in this paper, emphasising fair work, workplace practice and effective management that delivers mutual benefit and a fairer distribution of value. Its central focus is on workplace and management practices that simultaneously address ability, motivation and opportunity, thus integrating conceptually different elements of value creation and capture as well as aligning individual, business and societal interests, while recognising the contested nature of work and business.
27. FITwork is, we contend, the workplace representation of the inclusive growth agenda. FITwork is to the workplace what IG is to the Scottish economy.
28. Future economic, political and social challenges have stimulated increasing interest in resilience. In terms of work and business, discussions of resilience often emphasis individual responsibility

for resilience. This rather misses the point: facing future challenges will require resilience at workforce, sectoral and economy level. This is consistent with the emerging research agenda that seeks to deploy resilience with reference to inclusive growth and economic development strategies, focusing on the resilience of interconnected systems.

29. Policy can influence and shape business models and workplace practice. It is important to recognise, however, that businesses are the key players, and that there is a need for more explicit high level debate with businesses and their representatives on these issues.
30. There is little evidence of active state intervention at UK level to encourage high value, progressive business models.
31. The Scottish Government and its partners/agencies have intervened using 'soft' influence to support successful and progressive business practice that delivers fair work and workplace innovation. There is a need for better evidence on whether, and if so how, 'soft' influence works in influencing business, as well as the possibilities for other forms of influence, albeit acknowledging constraints on legislative powers.
32. Policy stakeholders should remain alert to opportunities to influence employer decision-making on business models and practices. While this will include ways of encouraging, for example, employee-owned businesses and more purposeful companies, the key prize is to mainstream progressive and innovative business practice into the wider population of businesses.
33. Given reserved powers, there may be potential in efforts to influence the UK government to address key corporate governance issues to promote progressive and innovative business practice, for example, using policy levers to influence executive reward strategies.
34. There is also little evidence of policy interest in broader issues of value capture and sharing, beyond issues of minimum wages and the Living Wage. Yet legislative change in this area (eg NMW) has impacted positively on workers without disadvantaging employers. Addressing the significant decline in workers' bargaining power would allow some of the worst excesses of business models to be addressed.
35. Other successful and productive economies address workers' interests in value creation and capture through effective forms of social partnership. In the absence of legislative power in Scotland, non-legislative ways of supporting social partnership might provide a way forward.
36. Given reserved powers, there may be potential in efforts to influence the UK government to develop employment protection legislation to deter business models and practices that unfairly burden workers with economic risk.
37. Procurement, local taxation and public funding can be deployed to support more responsible business models and more progressive workplace practice. Any such measure would require robust evidence as to its outcomes and impact. Better understanding of the role of 'beneficial constraints' might help frame such approaches.
38. Public agency business support has a key role to play in opening up discussions of how best to create and share value to deliver successful and innovative businesses, fair work and inclusive growth and, more prosaically, how to improve management practice.

39. Public agencies, however, do not and cannot reach all businesses. There is an important role for employers' organisations and private business support services in making the case for responsible and progressive business.
40. Considerable public funding is devoted to skills investment. Ensuring that plans for effective utilisation of these skills is in place should be a core part of such funding.
41. There is a need to align support for local business networks, HE, college and training institutions, business support services and other components of the economic governance architecture to ensure shared focus on economic resilience and inclusive growth.
42. Business and management educators have an important role to play in improving understanding of the potential of responsible business models, fair work and workplace innovation to deliver success for businesses, workers and society. Improving understanding of evidence-based mutual gains approaches as a route to competitive advantage could support employers' strategic decision making and support stable, trust-based business relationships and give voice to a wider stakeholder group.
43. There is a need to share contextualised lessons from a range of evidence bases on high performance, high involvement, lean, workplace innovation and other strategies around workplace and job redesign. Consistent themes from these different literatures include the value of interventions to: more effectively deploy employee skills; provide opportunities for voice and the sharing of ideas and innovations; redesign jobs and teams to create spaces for reflexive learning and collaboration; and distribute leadership to empower employees to innovate. To reiterate, the most powerful evidence from these literatures eschews a single best practice solution, instead seeking to test out approaches to workplace innovation and fair work within specific workplace contexts. The Scottish approach – which seeks to connect workplace innovation with fair work as part of a broader strategy for economic resilience and inclusive growth – provides a useful starting point.

1. Towards inclusive growth: implications for business and workplace approaches

Productivity and growth are central concerns of many governments and other stakeholders in the advanced nations. The UK, and Scotland, lag average G7 productivity, with Scotland ranking 16 out of 35 OECD countries, and in the post-global financial crisis period productivity has largely stalled. This 'productivity puzzle' has become the focus of widespread interest and attention, as well as attracting competing explanations for the phenomena.

At the same time, there are growing concerns over the levels and trends in inequality in many countries, including the UK and Scotland (World Economic Forum, 2015), with the UK having one of the most unequal distributions of income in Europe and seeing no reduction in inequality over the past 7 years (OECD, 2018). Trends in income inequality are driven both by rising incomes at the top end and by trends in lower incomes. There is increasing concern over poverty and in-work poverty levels. Just over 18% of workers in Scotland earned less than the accredited Living Wage in 2017 (compared with 22% of workers in the UK). Data for 2017 shows that of the 14 million people living in poverty in the UK, 8 million people live in households in which at least one person is in work (JRF, 2017). In the UK, one in eight workers live in poverty and more than 10% of working age adults are in the poorest two-fifths of the population (JRF, 2017). More than half (52%) of those households living in poverty in Scotland contained at least one working adult.

Some analysts pose a connection between low relative productivity and low wage work, in-work poverty, income inequality and poor scope for social mobility (Atkinson, Pikety and Saez, 2011; Wilkinson and Pickett, 2009). Inequality has implications for societal economic growth as well as individual wealth, with higher levels of inequality constraining GDP growth (Cingano, 2014). Economies with lower income inequality and which better use its peoples' skills and talents are more productive (Cingano, 2014; OECD, 2015). Low productivity is a particular problem in low-wage sectors, which employ around a third of all workers but which significantly lag economy-wide productivity (Thompson et al., 2016). Green et al. (2018) have argued that German, French and Dutch workers in low-wage sectors produce more in four days than British workers do in five. They explain this not in terms of lack of capital investment or skills, but in terms of poor use of employee skills, insufficient training and the need to improve management practice.

Efforts to improve productivity and growth need be considered in the context of other economic and social objectives, and from the perspectives not just of business and the economy but also of citizens and society. Scotland's Economic Strategy details a clear ambition to "foster a culture of innovation" within a focus on Inclusive Growth. Fair work is increasingly recognized as a crucial component in delivering high performing and innovative workplaces. While the UK scores relatively well in international 'job quality' rankings (and there is little reason to expect significant variation in Scotland's job quality performance), substantial numbers of employees, including in Scotland, experience low pay, under-employment (having too few hours of work), skills under-utilisation, long hours and work intensification (FWC, 2016):

- low pay: in 2017, 18% of workers in Scotland earned less than the accredited Living Wage and 7.3% were paid below or within 2% of the National Minimum Wage/National Living Wage
- in-work poverty: more than half (52%) of those households living in poverty in Scotland, and more than two thirds of children living in poverty, live in households with one working adult
- an under-employment rate of 8.4% (in 2016)
- rising income inequality, with the top 10% of households in Scotland experiencing larger increases compared to lower income households (over 2014-17)

- insecure work including zero-hours contracts and excessive demands for employee flexibility – “while a positive case can be made for some forms of labour market flexibility that can benefit employers as well as distinctive groups such as high skilled ‘itinerant’ workers, the experience of much non-standard work is largely negative” (Findlay and Thompson, 2017). There is clear evidence that non-standard workers are worse off in most aspects of job quality (paid leave, sick pay, training opportunities and career development (OECD, 2015; ONS, 2014)
- employee concerns over valued job aspects, pay reductions, unfair treatment and a loss of say over their jobs, leading to increased job stress and lower levels of job related well-being (Gallie et al, 2016).
- long hours and rising stress levels: in the UK, higher strain jobs have increased in recent decades, comprising 35% of jobs in 2012 . UK employees work some of the longest hours in Europe, with full time workers putting in an average of 42.9 hours per week. Stress is now the top cause of absenteeism in the UK, and 38% of UK employees report experiencing excessive pressure every day or once / twice a week (CIPD, 2017).
- Workers in poor quality jobs have, on average, the lowest levels of health and well-being, showing more health problems, lower subjective well-being, and find less meaning in their work (Eurofound; 2014; FWC, 2016).

The challenges and concerns discussed above are well captured in the debate on inclusive growth, “... economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society” (OECD, 2014: 1). Inclusive growth is at the core of Scotland’s Economic Strategy and recent Programmes for Government (Scottish Government, 2015, 2018).

The concept of inclusive growth (and competing emphases in discussions of inclusive growth) invite further consideration as to the relationship between inclusion and growth, not just to improve understanding of the concept but also to better inform its implications for policy and practice. Two themes – the importance of creating opportunities for all to participate and the need to distribute the benefits of growth fairly – are prominent in inclusive growth debates, and are, of course, linked, given that “Participation without benefit sharing will make growth unjust and sharing benefits without participation will make it a welfare outcome” (Ramos et al., 2013: 3)

In some expositions of inclusive growth, the growth effect stems from these two themes: from having more people involved in economic activity and from positive economic ripples arising from more widely shared prosperity. We contend that this is only part of the answer. What seems underdeveloped in discussions of inclusive growth is what comes between participating in economic life and sharing in its rewards, which is the process of creating the value that in turn drives growth. How – and how much - value is created is fundamental to the pursuit of inclusive growth. The core domain in which economic value is created – through the production of goods, services and knowledge – is the workplace. Acknowledging this does not neglect or underestimate what happens before people enter the workplace or after they leave it, nor the interaction of work with other spheres, notably families, nor the creation of social value in communities, public and third sector organisations. It simply reflects the reality that realisable economic value arises through paid work, and that work is crucial to the prosperity, health and well-being of most people and every society.

Inclusive growth should, therefore, be defined in terms of participating in, creating and sharing value. Value creation is an under-developed aspect of inclusive growth debates. Pursuing inclusive growth requires a focus on where value is created – within businesses and in workplaces.

Consequently, the characteristics of work and employment, what happens in workplaces, and how

work is managed and organised, are of huge analytical, policy and practice relevance. This recognition is at the centre of Scotland's commitment to fair work. Fair work is not driven solely by normative considerations – treating workers well – but by acknowledgment of the need to create and share value in ways that work well for all, including business. This requires better understanding of firm and workplace processes and practices:

“Researchers have long critiqued the tendency ... to see the workplace as a ‘black box’, often free of critical insight and policy intervention. More recently, and particularly in Scotland, greater attention has been paid to work and workplaces against a backdrop of economic and social challenges – many of which are longstanding - that have encouraged greater reflection on the link between what happens in workplaces and how this interacts with broader economic and social life. The slow pace of recovery from the 2008 economic crisis, rising income inequality, stagnating wages, poor economic growth and lagging productivity have directed the attention of stakeholder organisations to issues related to the state of the labour market, employment and workplace issues” (Findlay et al., 2016a).

There is significant potential in analysis that recognises the interconnected nature of participating in work, creating value at work and sharing in that value creation, and how these processes impact the outcomes valued by individuals, firms/organisations and society. Such a holistic analytical lens has been central to the development of debates on fair work in Scotland and lies at the heart of Scotland's Fair Work Framework. Fair work focusses on ensuring that workers have opportunities to participate on equal terms in work, a constructive role in value creation through high quality jobs and the ability to make a difference, and benefit from how created value is distributed. Crucially, fair work as defined by the FWC is integral to creating value in a distinctive way - building fair work in as a core ingredient of value creation and successful enterprises, rather than as an ‘add-on’ once conventional business objectives and outcomes are achieved. Fair work is, therefore, a fundamentally important mechanism for delivering inclusive growth – driving innovation, productivity and inclusion.

The potential of such an holistic approach to locating work, workplace practice and business outcomes in individual, organisational, economic and social context can be illustrated both negatively and positively. Poor quality work does not support inclusive growth. The negative impacts are most evident for individuals: being in a poor quality job makes individuals more likely to live in poverty, in working life and beyond; more likely that their children will live poverty; and less likely to access training or development. Health outcomes are also worse, not only relative to people in good jobs but also to people who are unemployed (Chandola and Zhang, 2018). But the implications for sustainable business are also negative over time: employers miss out on the benefits that good work brings through more engaged, adaptable, committed and resilient workers who identify challenges, solve problems, offer insight and ideas for business improvement and create value.

Furthermore, an holistic approach also allows us to identify important economic and social externalities of poor work. Poor work costs everyone. It imposes welfare and healthcare costs on society. It diminishes tax revenues. It creates and exacerbates problems for families and communities. It fails to harness returns from prior investment in education and skills. It drags down productivity, innovation and growth. Many of the practices associated with high quality work are more prevalent in societies with higher productivity and higher rates of business innovation than Scotland or the UK.

A better understanding of the relationship between participation, value creation and sharing in value, and better ways to support a positive synergy across them, will be fundamentally important not just to individual well-being and to delivering competitive and productive businesses and inclusive growth, but also to facing key economic and social challenges in terms of structural

economic change, automation, labour supply challenges (especially in the context of Brexit) and demographic change. (Pike, 2017). Employers' choices are of particular importance at times of significant change. As Kleinknecht (2015) has noted in relation to structural economic and political changes in the UK and elsewhere in the 1980s, the 'hire and fire' response of some employers' led to a decline in firm-specific training; increasing transaction costs consequent on higher turnover; weak management that fostered risk-averse behaviours, and declining tacit organisational knowledge to the detriment of 'creative accumulation' approaches to innovation is based. He argues that employer choices to offer 'good insider protection' and accept 'high wage cost pressures' might have triggered " ... 'quick diffusion of labour saving technology...exploiting more fully the potential of the IT revolution ... (supporting) the Shumpeterian process of 'creative destruction' in which innovative market leaders see off technological laggards competitively" (Kleinecht, 2015).

This paper has been written to support the Enterprise and Skills Strategic Board Mission on Business Models and Workplace Innovation. The framing of this Mission and the content of this review paper draws heavily on the work of SCER, and of Findlay, Lindsay and colleagues, on business models, job quality, workplace innovation and fair work, as well as on the wider research evidence base.

The mission is framed in terms of *promoting, adopting, implementing and supporting progressive business models and workplace innovation that can simultaneously deliver fair work alongside enhanced business performance and competitiveness, driving national productivity improvements and delivering genuinely inclusive growth that benefits individuals, businesses and society.*

This briefing paper reviews some important literatures in the context of the holistic framework outlined above, focussing on how businesses organise to create value and on workplace strategies and practices and their potential to deliver inclusive growth. This allows us to frame a discussion of how skills and economic development agencies can best support the business models and workplace practices that drive both successful business and inclusive growth.

1a. Research methods and approach

The research methods involved a desk-based review of key academic and policy literatures, collating and analysing evidence on this topic from the Enterprise and Skills system and wider literature. The paper also draws on engagement and discussions with appropriate stakeholders over many years. Some of these discussions have taken place in the context of the BMandWI Working Group. The aim of the review is to assess available evidence in order to identify key priorities for action and the potential of current and future policy interventions over the short, medium and long term.

1b. Structure and key themes of research and Briefing Paper

We have already outlined in general terms how the quest for genuinely inclusive growth may best be achieved through models and practices that stimulate productivity improvements that enhance competitiveness and drive economic growth in ways that benefit all – materially (in term of opportunity to participate in economic life and to share in the benefits of economy participation and value creation) and in terms of well-being (health, quality of work, quality of life).

Section 2 will focus on the role of employers as the primary actors in the adoption of business models and management and HR practices that deliver individual, workplace, organisational, economic and societal outcomes. It will outline how business models can be defined and understood; the range of business models found in the Scottish, competitors' and other economies; and assess business models in terms of their implications for inclusive growth. It will go on to consider the drivers of the adoption of different business models, and scope for employer/business choice within specific sectoral, market and labour market contexts. Understanding how business models and value propositions influence the context for workplace innovation and inclusive growth.

While business models are fundamentally important, complete alignment between business models and management's HR strategies and practice isn't inevitable – though the latter are undoubtedly shaped and constrained by the former. In Section 3 we argue for a better understanding of how management's HR strategies relate to productivity improvement and workplace innovation. We review a range of management and HR approaches, offering evidence on the impact of specific examples of 'high performance' workplace practices in delivering (or failing to deliver) both productivity gains and broader fair work/inclusive growth benefits. This part of the research will consider key evidence on the impact of workplace strategies including high performance work systems; lean management; high commitment/employee involvement and engagement strategies; workplace learning and innovation initiatives and the potential of mutual gains approaches that seek to understand the impact of business models (and other factors) in shaping the "ability, motivation and opportunity" of stakeholders to act.

In Section 4, we pull out the implications of our analysis for strategies supporting "resilience" at the level of the organisation, sector and broader economy. Seemingly diverse literatures that discuss resilience from the perspective of HR practice, organisational structures and local economic development strategies in fact share common themes – the need to move beyond seeing resilience as an individual trait that can be demanded of employees; that workplace structures can support people to respond to challenge and change, and are therefore important to organisational resilience; and that, at organisational, sectoral and local economy level, business models have a potentially crucial role to play in determining resilience to economic shocks and capacity to adapt towards more productive economic development strategies.

In Section 5, we turn our attention to how public policy and other levers of influence can and do influence business model choices, management and HR practices and workforce resilience.

Finally, the Briefing Paper will conclude by making connections to the levers and strategies currently and/or potentially at the disposal of the relevant public agencies and other stakeholders in Scotland.

2. Employers, business models and value propositions

Delivering inclusive growth requires engaging multiple stakeholders across a complex landscape. While policy and other stakeholders can try to influence, business are arguably the key players. Employees make up over 90 percent of the labour force in developed countries (Marsden, 1999). Business decision making defines employment levels and composition; pay; contractual forms; work organisation; training, learning, development and career progression; and workplace governance and decision making. While employers and businesses may not control markets, the wider business environment or institutional infrastructure, they do make real choices over how they use labour, for example in relation to who they recruit and train, the terms and conditions they offer and the priorities they accord to human capital investment and development in both company specific and transferable skills. These choices have wider consequences. As Cobb has argued, firms help determine rates of income inequality at the societal level in how they match individuals to jobs and how they reward people for their work (Cobb, 2016).

This takes us to a discussion of business models and value propositions on the one hand, and to discussions of how people are utilised and managed within firms/organisations on the other. We return to the management of people in Section 3. Here, we focus on the implications of business models and value creation¹.

A business model can be defined as "the logic of the firm, the way it operates and how it creates value for its stakeholders" (Casadesus-Masanell and Ricart, 2010: 197). The primary purpose of any

¹ The remainder of Section 2 will draw heavily on Findlay, Thompson, Cooper and Pascoe-Deslauriers, 2017.

business model is to identify how to use firm resources more productively to create and capture value. While there is little consensus on the composition of business models, some analysis differentiates business models in term of choices, consequences (Casadesus-Masanell and Ricart 2010) and contexts (Findlay et al., 2017, 2018), while others focus on specific practices such as cost structures, pricing, capitalisation and cash generation (Andersson et al., 2014). What is crucial to note, however, is that the design and implementation of business models are dynamic and contested processes in which the power resources of key stakeholders are deployed.

Research on business models is growing, but there are important gaps, notably around the impact of business models on labour and on their wider societal externalities. This matters, given that business models typically exhibit a bias towards one group of stakeholders (e.g. shareholders) over another (Lazonick and Mazzucato, 2013) enabling more powerful economic actors to extract disproportionate value (Findlay et al., 2017).

This is sharply captured in debates on maximising shareholder value (MSV). The MSV approach emanates from shareholders' property rights and principal-agent theory as it applies to shareholders and management control in the interests of shareholders. With the emphasis on delivering value to investors, MSV models have a systemic bias towards value extraction and capture rather than value creation (Lazonick and Mazzucato, 2013; Mazzucato and Shipman, 2014). MSV is largely silent on or indifferent to how value is created so long as its capture is maximised in shareholders' interests.

MSV approaches are important not just where they operate but also in their influence and reach beyond large, financialised corporations. The predominance of MSV in the theory and practice of firms also generates and disseminates a language, concepts and practices that influence behaviours even where MSV is not predominant, thus increasing its reach and impact into other sectors, sizes and types of organisation.

Employers, while constrained by broader economic, political and social factors, can and do make choices in defining their business models. The range and diversity of business models cannot be captured in this brief analysis. For illustrative purposes and to open up a debate about the range of business models adopted, Findlay et al. (2017) consider examples spanning globalised non-financial corporations, gig/digital businesses, privately owned (i.e. non-listed) family firms and employee-owned enterprises (while noting the range and diversity of practice across and within these illustrations). Crucially they note that across all of these types of business models, there are tensions and trade-offs to be made between creating value and how and to whom value is distributed.

2a. Globalised non-financial corporations

Globalised non-financial corporations have been increasingly characterised by concentration and centralisation of capital (Nolan and Zhang, 2003; Foster and McChesney, 2012), the strengthening of lead firm governance in the value chain (Milburg, 2008) and increasing financialisation reflecting shareholder value pressures. In the context of intensified competition, these linked processes can lead to a focus on cost minimisation, with negative implications for workers and suppliers (Milburg, 2008) and to time horizons that deter longer term innovation and investment (Orhangazi, 2008; Stockhammer, 2008; Lazonick and Mazzucato, 2013).

2b. Gig economy models

There are competing versions of gig economy business models. Online digital labour platforms match workers and work on a task basis and tie workers' revenues specifically to task completion. (see Bergvall-Kåreborn and Howcroft, 2013, Graham et al., 2017, Grandini, 2017). Some accounts focus on digital networks built on freelancing and contracting where workers can provide services autonomously and flexibly, potentially displacing firms and workplaces (Cefkin et al., 2014). Other accounts focus on casualised and insecure work. Digital labour platforms can be diverse in character, making their scale difficult to measure (Findlay and Thompson, 2017), but they share important similarities, notably in the exposure of workers to risk and in their capture of value largely by

businesses and customers. While gig economy business models can have progressive elements – for example, supporting skills arbitrage and allowing labour in under-developed nations access to income (Lehdonvirta, 2016: 68), their aggregate effect is likely to reduce the global labour share of value-added.

2c. Family business models

The majority of businesses (and employees) are not in large corporations but in private shareholding SMEs that adopt diverse business models. Family-owned firms illustrate business model alternatives. The literature on family firms has long recognised that these firms can exhibit distinctive approaches to value creation that are not driven by profit maximisation, as well as distinct approaches to value distribution that do not focus solely on maximising shareholder value. Three distinctive elements are often more prominent in family firms: the pursuit of non-financial goals, including corporate reputation, autonomy and control, loyalty and trustful relations, status, socio-emotional value and community goodwill, creating greater security, nurturing contribution and sharing benefits (Berrone et al., 2012); the engagement of stakeholders other than shareholders (for instrumental and non-instrumental reasons) (Cennamo, Berrone Cruz and Gomez-Mejia, 2012; Zellweger et al. 2013), and a wider sharing of risk and benefits with greater willingness by the firm to shoulder costs of uncertainty in return for valued non-economic benefits (Berrone et al., 2012).

Family firms vary significantly, but the role of ‘family essence’ – the willingness to influence the business in a particular way (Chrisman, Chua, Pearson and Barnett, 2012) highlights the scope for some employer choice in how value is created and shared. Furthermore, other types of businesses also focus on non-economic goals and what they see as responsible business orientation (Hammann et al. 2009). Scope to exercise such choice is facilitated by ownership and the consequent ability to take decisions independently of any third party.

2d. Employee-owned businesses

Interest in employee-owned businesses has seen a resurgence over the last decade, not least because there is some evidence to suggest that EO businesses have weathered better the global financial crisis and its ongoing impact and that EO businesses perform well both economically and in terms of workplace relations (Kruse, 2016). On the face of it, one might expect that the tension between value creation and value capture would not exist in an employee-owned business given that employees are the shareholders, both creating value and, as owners, benefitting from value capture. One might also expect, following from this, that the experience of working in employee owned businesses would be more favourable for employees.

However, structural constraints still bear heavily on EO businesses – for example, there are challenges raising finance, accessing knowledge and staff, and ensuring sustainability/succession. EO businesses are heterogeneous, and encapsulate a variety of types of ownership and forms of governance. Having employees as shareholders does not remove the agency problem – it simply reconfigures it. Many, if not most, EO businesses rely on professional management and the relationship between professional management and other shareholders may differ little from conventionally-owned firms. Given this, there is no necessary connection between employee ownership and associated forms of governance and the day to day experience of work in EO firms, and concerns over more intensive self-exploitation are present in the literature. EO firms are not all innovative in involving employees (Pendleton et al., 1998), and have been used in the US as vehicles to avoid unionisation (Wills and Lincoln, 1999). Moreover, even in a context of employee ownership, EO businesses must still balance internal and external stakeholder interests and aspirations as the interests of employees, shareholders (including employee non-shareholders and shareholding ex or non-employees in some businesses) with those of suppliers, customers and society. Overall, EO businesses are not always imbued with alternative values that depart from the centrality of creating shareholder value and, even where they are, these values exist in tension with business realities in market economies.

2e. Business models and work/employment

Cobb (2016, following Jacoby's 2005 discussion of corporate governance and employment relations) offers a helpful introduction by distinguishing between businesses that have either organizational and market focussed employment systems, reflecting differential reliance on internal and external criteria in structuring work and employment. It is worth describing Cobb's categories at length. Organizational systems are "... associated with stable employment with low turnover, extensive use of training, and the dominance of internal considerations – such as a desire for equity – on executive decision making. In such a system employers protect workers from many of the vagaries of market forces: they take a longer-term perspective on performance and favour corporate strategies that necessitate a stable, well-trained, and loyal workforce" (2016: 329). By contrast, a market focussed approach "... is characterised by flexible employment relationships with higher turnover, fewer opportunities for training, and pay and allocation decisions based on external criteria. The shorter-term orientation discourages employers from bearing market risks on behalf of their workers and encourages them to use employment practices that lower costs and increase flexibility" (ibid: 329), although this might be only in the short term.

These represent ends of a continuum and may apply in hybrid forms to different types of workers.

So, different business models have different implications for the chances of attaining inclusive growth. Some will be very far from fair work, skills utilisation, resilient workforces; some will be much closer. Emphasis of the mission is on 'progressive business models' ie those consistent with inclusive growth and fair work.

As Findlay et al. (2017) have argued, business models vary in context, choices and consequences:

"Subject to varying product and labour market pressures, shaped in significant part by ownership characteristics and framed not just by regulation but by the wider activities of the state, business models are constructed in context to serve a hierarchy of interests and actors, often, however, in significant and visible tension with the interests of other relevant actors. In some versions, business models acknowledge the need for co-operation across stakeholders in value creation which can impact directly on patterns of value capture. In others, the discipline of the market is used punitively to deliver value for one stakeholder group at the expense of others in sharing in value capture. Yet timescales are always important, and the externalities of business models that deliver only for shareholders may threaten their longer term sustainability, in addition to imposing significant economic and societal externalities. Business models drive management practice that shapes both value creation and capture, but not always in alignment ... But these are not inevitable outcomes and significant scope for strategic choice exists in all of the above business models".

A sole focus on shareholder value pressures can lead to the adoption of business models based on accounting techniques and management practices that appear inconsistent with inclusive growth, transferring economic risk to labour (Allen and Henry, 1997), increasing worker insecurity (Kalleberg, 2009), reducing labour's share of value capture (Karabarbounis and Neiman, 2014) and exerting excessive pressure on supply chains (Gearhart, 2016). Stakeholder-oriented business models may offer a better prospect for addressing some of these challenges.

2f. Stakeholder-oriented business models

Stakeholder theories are often proffered as the counter to MSV approaches, recognising the roles, interests and claims on business of stakeholders beyond shareholders (Freeman 1984). Stakeholder approaches go beyond corporate social responsibility's largely pyramidal framework where ethical and philanthropic responsibilities arise once business and economic outcomes have been secured.

Stakeholder theories acknowledge the broader institutional context of business, recognising the range of stakeholders who contribute resources to an organisation, bear risk and who have some influence in or over the organisation (Frooman, 1999; Kochan and Rubinstein, 2000). Stakeholder claims are often only loosely specified in terms of decent pay or jobs for workers, fair terms for suppliers and environments free from pollution for communities and there is little specification as to how multiple and competing claims are to be met, with management remaining the real arbiters of stakeholder interests (Kochan and Rubinstein, 2000).

Stakeholder-oriented business models do not deny shareholder interest but view these in the context of other stakeholder interests. They are more likely to have stakeholder representation in governance arrangements and less likely to utilise control-based governance, rather building co-operation, collaboration and conflict resolution. Such models need not be adversarial and may utilise collaboration and sharing of value created to positive effect (Phillips et al., 2003). Indeed, stakeholder-focussed business models can deliver positive business outcomes through lower costs of control, better information dispersal, greater access to valuable knowledge and other tacit resources and the benefits of more constructive intra-firm relationships (Bottenberg et al., 2017). As discussed above, some business models – for example, employee-owned businesses (EOBs) - more explicitly acknowledge broader stakeholder interests and may deliver for all stakeholders in terms of economic resilience (Cheney et al 2014), productivity gains (Harris et al, 2005); higher levels of **employee** satisfaction, retention and organisational commitment (Lampel et al 2017), individual motivation and performance (Cheney et al, op cit) and more equitable pay dispersal (Reeves et al, 2014).

EOBs are, however, only a small proportion of the business population, as are explicitly ‘purposive’ or values-led companies. As the evidence above indicates, some family firms are distinctive in pursuing non-financial goals, creating greater security, nurturing contribution and sharing benefits; and engaging stakeholders other than shareholders (Berrone et al, 2012) and, of course, different degrees of stakeholder orientation will, of course, span all types of businesses.

There is, however, some cause for concern in the UK in relation to the channels for, and influence of, non-shareholder voice in UK firms. Trade union density and collective bargaining coverage have declined markedly in the UK since the late 1970s. While the 2011 Workplace Employment Relations survey (Van Wanrooy et al, 2013) shows that individual/direct voice practices on their own are present in 48% of UK workplaces and cover 28% of employment, these authors report that formal opportunities for employees to participate in organisational decisions have remained static since 2006 and fewer employees report having an opportunity to make a contribution in 2011 than in 2001 (27% compared with 36%). This large scale survey data also suggests that voice channels might exist without much influence, with management consultation becoming shallower in the UK. In 2011, fewer managers (39%) were likely to consult to get feedback on options than reported doing so in 2004 (45%), while they were significantly more likely to consult only on a preferred management options (28% in 2011 compared with 9% in 2004). In addition, the number of higher level joint consultative committees (where the most significant decisions are made) have declined, falling 5% to 20% between 2004 and 2011. Despite the WERS evidence that individual voice alongside well-organised collective voice produced better outcomes for employees and for firms, such dual voice arrangements exist in only 10% of workplaces and are available to only 30% of employees.

Stakeholder-oriented business models should, other things being equal, reduce the negative externalities of business, deliver fairer work and hence contribute to inclusive growth, in contrast to some MSV models based around labour exploitation and collateral damage to families and communities. Supporting inclusive business models and a stakeholder orientation in more firms could unleash innovative potential, improve productivity and enhance employee voice, contributing to fair work. This is not a radical position – mainstream business analysts have argued that declining

trust in business and perceptions of business legitimacy might be addressed by greater attention to wider social objectives and interests (Porter and Kramer (2011).

2g. Policy influence on business model choice?

Policy has a role to play in influencing business models. Balancing multiple, cross-cutting and often conflicting interests in organisations is not simply a matter of managerial choice but will be shaped structural, regulatory, institutional and organisational factors. There is already considerable cross country variation in national institutional arrangements which influence the extent to which policy and other stakeholders can shape business choices.

It is possible for normative commitment to promoting and supporting stakeholder approaches to be embedded in national institutional arrangements, and this is the case (albeit with varying approaches) in a number of EU states. Such institutional arrangements in co-ordinated market economies ranging from Sweden and Finland to Germany ensure promote social partnership and ensure that trade unions are able to voice employees' interests in organisational decision making.

However, there is a case to be made for shifting away from a simple "business-case 'productive factor' approach" (Wilkinson et al., 2014: 740) and instead considering impacts and obligations beyond the single organisational level. This requires considering, and agreeing measures of, the direct and indirect costs of different business models for people, businesses, and wider economy and society. Business models that focus entirely on maximising shareholder value may be blind to externalities that impose a cost on employees, other business stakeholders and society.

Influencing business model development represents a complex policy challenge. However, there are some general observations that can be made about potential areas for policy action. For example, Lazonick and Mazzucato (2013) argue that policy should focus on shifting the risk-reward nexus to incentivise a focus on long-term shared value. Policy levers might include seeking to influence executive reward strategies (so that rewards are less connected to short-term profit seeking and more to long-term investment, growth and innovation). There is also evidence that company and employment protection legislation can be effective influencing boards to consider the long-term organisational and community impacts of management decisions (Jacobs, 2011).

We should acknowledge that making the case for additional company and/or employment protection legislation is likely to prove challenging in liberal market economies such as the UK. Nevertheless, policy stakeholders should remain alert to opportunities to influence employer decision making on business models and practices. There are some signs of businesses considering stakeholder-oriented models. The number of employee-owned businesses has grown in the UK, albeit from a low base. These organisations, alongside family businesses and other small companies, may be more open to stakeholder-oriented approaches that take a more inclusive approach to the sharing of value (Findlay et al., 2017). There is also an emerging agenda – driven by some businesses – about what it means to be a 'purposeful' organisation (Big Innovation Centre 2017). But addressing the implications of particular business models is fundamental to any realignment of the value process at work, since these reflect " ... the concrete choices made by management about how the organization must operate, and the consequences of these choices" (Casadesus-Masanell and Ricart, 2010: 98).

3. Workplace strategies: people, progressive practice, performance and potential

Across the wide range of business models and disciplinary perspectives, there is a broad acceptance that the value process represents a trajectory from human capital and its deployment to the

creation and realisation of value. That people create value and are a source of competitive advantage is also explicit or implicit in critical scholarship that contends that all value stems from labour, in literatures on human capital (Pfeffer, 1994; Becker et al., 1997; CIPD, 2017a), human resource management and on resource-based views of the firm (Barney, 2000; Barney et al., 2001), and also in finance research that suggests that capital markets value human capital (Hillier et al., 2007). Moreover, HR, finance and accounting research all contain evidence that better maintenance of employees, and better HR processes and practices, will further improve value creation.

This has spawned a number of 'best practice' approaches such as High Performance Working, Lean Production, Employee Engagement and a plethora of leadership approaches. We review briefly some insights from the most prominent and relevant of these debates below.

We note, however, that these debates are largely (though not wholly) focussed on value creation, not who shares in its distribution. As one of the authors has argued elsewhere, "... outside of what are increasingly seen as 'old fashioned' or irrelevant debates in the industrial relations tradition, much of the contemporary HRM literature is strikingly silent on value capture. We argue that the distance between debates on human capital and on value capture have, in recent years, expanded as shareholder value perspectives have gained ground over other conceptions of the business organisation" (Findlay et al., 2017: 9). Wages as a share of total national income ('the wage share') has declined sharply, staying below 56% since 1982 (and down at 51% in the late 1990s), while the profit share rose from 24% to 28% between 1980 and 2011, with most of this fall in the wage share borne by the poorest paid (Lansley & Reed, 2013). In 2013, FTSE 100 CEOs were paid on average 130 times more than their average employee (High Pay Centre, 2014). In Scotland, the bottom 40% of earners earn 22% of total income while the top 10% receive 24% of total income. Non-pay benefits also rise with income, exacerbating income disparities.

Perceptions of wage inequality damage employee commitment (Greenberg, 1990; Leete, 2000; Guthrie, 2007), and wages can also be a signifier of how employees are treated and valued, with knock on effects for performance, conduct and well-being. A review of over 70 scientific studies by Rhoades and Eisenberger (2002) concludes that where employees feel valued they are more show higher levels of commitment to the organisation, greater job satisfaction, lower levels of sick leave and turnover, and lower levels of psychological strain and that employees that feel valued are more committed to the organisation, have improved job satisfaction and mood and decreased withdrawal (including tardiness, uncertified sick leave and turnover) from work. They have less psychological strain, which reduces their symptoms of burnout, anxiety and depression.

3a. High Performance Work Practices

A real and positive relationship between investment in human capital and the creation of value is both theoretically substantiated and underpinned by empirical evidence, as illustrated in the meta-analysis of 92 studies reviewed by Crooke and colleagues (2011), and in a review of American research that shows substantial efficiency outcomes, with productivity premiums ranging between 15% and 30% for those investing in high performance practices (Appelbaum et al, 2010).

An emerging body of evidence is now linking forms of management of human capital to firm outcomes. The relationship between human capital deployment and management and business outcomes has been addressed most extensively in the HRM-business performance literature. While there are concerns over the reliability of some of the evidence base (Wall and Wood, 2005), bundles of HRM practices focussing on sophisticated selection, extensive training and information sharing appear to contribute to business outcomes (Boselie et al., 2005) and are at least weakly related to firm performance (Paauwe, 2009) in terms of various financial, organisational and HR-related outcomes (Dyer and Reeves, 1995; Huselid, 1995). A meta-analysis by Combs et al. (2006) of 66 papers establishes that HPWPs (excluding performance appraisals, teams and information sharing)

materially affect organizational performance; that systems of HPWPs have stronger effects than individual HPWPs across different types of organisational performance measure, and that stronger effects are found in manufacturing relative to service firms.

The evidence on the implications for workers is, however, more mixed. Kehoe and Wright (2013) examined the relationships between employees' perceptions of HPWPs and absenteeism, intent to remain with the organization, and organizational citizenship behaviour, finding that employee perceptions of HPWPs were positively related to all of these variables. Similarly, Macky and Boxall (2007) have found clear evidence of a positive relationship between HPWPs and job satisfaction, trust in management, and organizational commitment. Their study also notes, however, some negative interactions between some HPWPs. They conclude that while HPWPs can potentially provide mutual benefits to employers and employees, there may be limits to the positive outcomes of HPWPs for employees.

Macky and Boxall (2007) speculate that the outcomes from HPWPs for employees may be less in circumstances of greater complexity, for example, where a plethora of management initiatives can overwhelm employees. They also note the potential for HPWPs to increase work intensification and employee stress, an outcome noted across a range of case studies and surveys to date (Ramsay et al., 2000).

Goddard's (2004) analysis of the implications for workers of alternative work practices (AWPs) associated with the high-performance model delivers similar findings. He argues that moderate levels of AWP adoption were associated with increased 'belongingness', empowerment, task involvement and, ultimately, job satisfaction, esteem, commitment, and citizenship behaviour. Higher levels of adoption of these practices, however, diminished and could reverse these associations. In addition, adoption of AWP was also associated with more stressful work.

The broader evidence suggests that while the business outcomes of HPWPs can be positive, more needs to be known about the configuration of circumstances and practices where employees experience HPWPs as positive and empowering rather than negative and stressful. In addition, more needs to be known about why, to what extent and how businesses adopt HPWPs, given that high performance practices are 'more topical than typical' (Findlay and Warhurst, 2012: 6) and are utilised in only a minority of firms (Godard, 2004; Kaufman, 2010).

Moreover, debates on HPWPs have little to say about who shares in the material benefits that these practices deliver, beyond individualised rewards for small numbers of high performers (Ramsay et al., 2000; Cushen and Thompson, 2016). Indeed, even where HPWPs generate business benefits, ongoing pressures to reduce costs can lead not just to work intensification but also to value transfers from worker wages, pensions and benefits (Appelbaum and Batt, 2014; Gospel et al., 2014).

3b. Lean production systems

Lean production has been described as " ... the world's most powerful production system" (Dennis, 2002) and the concept of 'lean' has been increasingly applied beyond the world of manufacturing to the provision of both private and public services (Landsbergis, Cahill, and Schnall, 1999; Lindsay et al., 2017) across the world (Pil and MacDufie, 1996). There is an extensive literature pointing to the business benefits of lean production, though D'Andreamatteo et al. (2015: 1206) urge caution, arguing that " ... the literature is specifically built on cases of success".

Maximising value creation by enhancing efficiency, quality and responsiveness (Appelbaum and Batt, 2014) is absolutely central to lean production, which focusses on all aspects of the labour process itself and on removing wasted time in order to prioritise time spent on productive and value-creating activities, while also eliminating costly defects by tracing them quickly to their source

(Womack, Jones and Roos, 1990). To make this happen, tasks and responsibilities are devolved as far as possible to workers directly involved in value creation. The emphasis in lean on workers' responsibility for work standards, pace and quality requires investment in multiskilling and teamworking to deliver high quality, continuous improvement and to resolve problems, and explains why lean production systems are claimed to be empowering and motivating for workers (Adler, 1993; Womack et al., 1990), and a range of studies have identified positive outcomes for workers in lean production systems (Parker, 2003).

There is, however, an extensive research base on the negative impact of lean production on employee's job quality and experience of work, drawn from case studies, large scale surveys, comparative analyses, longitudinal studies and quasi-experimental studies (for a review, see Parker 2003). These critical perspectives highlight a number of areas of concern:

- that lean production does not generally deliver multiskilling but rather multitasking around variations of the same jobs (Delbridge, Turnbull, and Wilkinson, 1992);
- that lean systems have not expanded employee participation in decision making significantly (Parker and Slaughter, 1988);
- that team working in the context of lean can be used to impose peer pressure in the context of intensified work (Turnbull, 1988) and do not represent an improvement on individualised working (Godard, 2014);
- that lean has not delivered improved autonomy and decision latitude for workers (Landsbergis et al., 1999);
- that lean practices such as lean teams, assembly lines, and workflow formalization reduced organizational commitment and role breadth self-efficacy and increased job depression, partly attributable to reductions in job autonomy, skills utilisation and participation in decision making (Parker, 2003);
- that lean production systems lower employee motivation and well-being (Delbridge et al., 1992; Turnbull, 1988).

A comprehensive review of 243 studies of lean practices in health care by D'Andreanmatteo et al. (2015) identified positive outcomes in "productivity and cost efficiency, clinical quality, patient and staff safety, patient and staff satisfaction, and financial result" (2015: 1202), with over 50% of studies reporting increased productivity and cost efficiency, though few studies could track the sustainability of improvements over time. Very few studies reported any increase in staff satisfaction. These authors note the challenges in assessing the outcomes of lean production given definitional variation, the inclusion of evidence on both the partial and holistic adoption of lean, the use of lean alongside other improvement techniques and real challenges in delivering comparable measurements.

Across manufacturing, private and public services, a hotly contested debate continues on the business benefits of lean production, and in particular on its implications for workers and work (see Procter and Radnor, 2014 and Carter et al., 2016 for a detailed debate on lean production evidence in the context of UK public services).

3c. Leadership and management practice

We have argued above that business models – and in particular their orientation towards shareholder versus stakeholder value – shape governance arrangements alongside organisational and HR practice. Business models also shape leadership and management practice. Focussing on shareholder value alone at some level simplifies the process of leadership by limiting the involvement of other stakeholders and as a consequence the range of interests and objectives to be

met by the firm. Stakeholder-oriented business approaches require the balancing of multiple objectives but also open up the process of leadership to a wider pool of actors.

Much of the extensive literature on leadership is largely silent on or takes for granted that the objective of leadership is focussed primarily on delivering value to shareholders and customers. In important regards, this oversimplifies our understanding of leadership, leaving an emphasis on *how* not *why* leadership is carried out that is dominated by discussions of styles (Ogbonna and Harris 2000), competencies (Bolden and Gosling 2006), and incentives and rewards. Debates on leaders' values are often individually focussed and decontextualized (Ogbonna and Harris 2000, Fu et al. 2010), yet, as our earlier discussion of family firms suggests, leaders' values can influence stakeholder orientation where governance arrangements create space for the exercise of strategic choice (Findlay et al 2017). Many managers report that their jobs involve serving a wide range of stakeholders (Donaldson and Preston 1995) yet leadership is most often framed around serving a narrower stakeholder group.

Turning to management practice, the work of Bloom and Van Reenan (2007) over the last decade has analysed systematic large scale empirical data on management practices across firms, industries and countries to attempt to explain cross and within country variation in firm-level outcomes such as productivity, profitability and survival. Drawing on a bespoke survey of plant managers alongside analysis of firm accounts and stock market values, they conclude that better management practices are significantly associated with higher productivity, profitability, Tobin's Q, sales growth rates, and firm-survival rates. The 'better' management practices selected by the authors focus on:

- operations (lean management, documenting process improvements and rationale for introducing improvements);
- monitoring (tracking individual performance, reviewing performance, ensuring plans are kept and sanctions and rewards are in place);
- targets (types, realism, transparency and range/interconnection of targets);
- incentives (promotion criteria, pay and bonuses; approach to poor performers and reward for ability and effort).

These practices are of note as they focus on the work level of middle managers rather than the more common analysis of the attributes of senior management and are consequently more embedded in day to day work practice. "Our interpretation is that managerial practices are deeply embedded in the organizational capital of the firm, and this explains the higher productivity and profitability of well-managed firms. This organizational capital is greater than the sum of the parts of abilities and skills of the current employees" (Bloom and Van Reenan, 2007: 1386).

These authors make a number of interesting conclusions with implications for practice and policy:

- There is a wide range of management practices across firms, with a long tail of very badly managed firms who pay little attention to monitoring, targets and incentives.
- Higher levels of competition are strongly associated with better management practice, potentially through the exit of weaker firms and how competition enhances managerial effort.
- The impact of family ownership on management practice is an empirical matter, given that drawing management from family might limit the pool of talent and may generate a Carnegie effect (where inheritance deadens the talents and energies of beneficiaries), but may also mitigate principal-agent problems and support investment if firm-specific human capital
- From the data, family owned firms where CEO succession is determined by primogeniture tend to be very badly managed, while those that select from all family members are no worse managed than other firms.

- Family-owned firms with professional management are mildly positively associated with good management practices.
- There are significant country variations, with the rank order scores of countries studied (best to worst) being the US, Germany, France and the UK, with the lowest two average management scores primarily due to long tails of badly managed firms in France and the UK.

Bloom and Van Reenen question why not all firms adopt these management practices that appear to be beneficial for productivity. They offer three possible answers. First, that costs of new practices might outweigh their benefits such that while productivity might rise, profits may not. Second, that managers may wish to avoid the effort involved in adopting better practices. Third, the optimal level of good practices will vary between firms in different product markets and with different labour forces.

Additional findings drawn from an expanded version of the original data set (Bloom and van Reenan, 2010; Van Reenan, 2017) also noted that:

- Only 20% of plants used three quarters or more of the performance-oriented management practices identified, but that these plants had dramatically better performance than their competitors.
- Every 10% increase in a plant's management index is associated with an impressive 14% increase in labour productivity, meaning higher value added per worker.
- Plants that switch to more performance-oriented practices tend to become significantly more productive.
- Firms with more educated workers tend to adopt much better management practices.
- Country rankings varied for distinctive subsets of management practices adopted, for example, US firms ranked above Swedish firms in the use of incentives but below Swedish firms in the use of monitoring.
- Multinationals are generally well managed in every country and transplant their management styles abroad.
- Sixth, firms that export (but do not produce) overseas are better-managed than domestic non-exporters, but worse-managed than multinationals.
- Management practice explains more of the difference between the top and bottom 10% of companies (18%) than more commonly cited explanations of company performance such as R&D (17%); employee skills (11%); and IT spending (8%).
- Management quality varies not just between companies, but also within them.

This area of literature does not offer much detailed discussion of the employee experience. Bloom, Kretschmer and Van Reenen (2006), drawing on the same data set, suggest that overall management scores are strongly positively correlated with better work-life balance indicators.

3d. High involvement/employee engagement

Lawler et al. (1995), and other workplace researchers, have made the case for high involvement work practices, which they argue are associated with the improved alignment of employees' skills and to foster employee involvement in decision making and problem solving, enhance employee commitment, and ultimately increase firm performance (Rana, 2015). Lawler et al. (1995) suggest that high involvement approaches can be defined across four key dimensions:

- **Power**, meaning employees' power to make decisions in their day-to-day work or participate in organisational decision making processes – this has implications for job design, collaborative team working and management/employee relations, and voice mechanisms.

- **Information**, so that employees understand organisational priorities, policies and strategies, and have access to relevant performance data – this demands a proactive approach by management to information sharing and transparency, and also calls for the minimisation of unnecessary boundaries within the organisation. Such approaches offer benefits in terms of employees’ understanding of their job roles and contribution to the organisation, and their capacity to collaborate with other employees/parts of the business.
- **Reward**, with the argument here being that there should be clear alignment between employees’ deployment of knowledge and skills and their effective use of autonomy and power in their day-to-day work (see above), and rewards, which may take monetary, other extrinsic or intrinsic forms.
- **Knowledge**, referring to employees’ skills and abilities to innovate and contribute to business objectives. The high involvement literature emphasises the need for consistent investment in skills development – increased autonomy and the involvement of people in day-to-day decision making means that it is essential that “employees have the skills and abilities to weigh options, discuss alternatives, and arrive at the correct decisions” (Rana, 2015: 313). Knowledge and skills development interventions may take the form of supervision, coaching, targeted training or ensuring that job and workplace design lock in opportunities for reflection and learning on-the-job.

Advocates of high involvement practices point to an evidence base suggesting a link with work engagement, defined in terms of employees’ sense of absorption, dedication and invigoration when connecting with their work (Rana, 2015), as well as other positive outcomes including job satisfaction, lower stress levels and reduced employee turnover (Vandenberg et al., 1999; Macky and Boxall, 2008). Vandenberg et al. (1999) argue that positive impacts on employee engagement and performance are likely to be linked to two processes – a cognitive path by which high-involvement takes ‘greater advantage of the skills and abilities’ of employees and a motivational path in which involvement processes increase ‘workers’ satisfaction and other affective reactions’.

Nevertheless, we should acknowledge that management calls for action on employee engagement often co-exist alongside substantial challenges around job quality, with employees reporting problems of job and income insecurity, work intensification and increasing performance demands, all at a time when labour’s share of value distribution has been in decline (ILO and OECD 2015). This may explain the paucity evidence that employers do actually engage employees, with Rayton et al pointing to “...an employee engagement deficit” with surveys suggesting that only between 17 and 35% of UK workers say they are engaged” (Rayton et al., 2012).

3e. Enhancing skills utilisation

A well-established evidence base (and long-standing policy agenda in countries including Scotland) seeks to address issues of skills under-utilisation. Survey data – for example the UKCES Employers Skills Survey 2014 – points to worrying levels of skills under-utilisation. In Scotland, 51% of establishments reported some skills under-utilisation and having 17% of staff over-qualified and over-skilled for their current role. Over-qualified staff are not pushing firms to do bigger and better things in part because business models, the organisation of work and job design do not support this.

Skills under-utilisation within organisations and in the broader labour market represents inefficiencies in the flow and matching of talent and a waste of human capital. There is also evidence that skills under-utilisation impacts negatively on employees’ capacity to deliver and innovate for their organisation and is associated with lower levels of motivation and job satisfaction. Conversely, as Keep (2016) notes improving skills utilisation can provide immediate benefits through decreasing skills shortages and gaps, easing recruitment and retention difficulties.

Findlay and Warhurst (2012) identify a number of factors contributing to skills under-utilisation, including: recruiters engaging in credentialism – demanding higher levels of qualification from a more educated workforce even if vacancies do not require that level of qualification; and a broader problem of high levels of demand for lower skilled jobs, so that there are insufficient skilled vacancies within organisations to absorb higher skilled and qualified workers.

It is therefore important that policy interventions, or attempts to engage employers on the issue of skills under-utilisation, address the range of factors feeding into the problem. Keep (2016) commends the Scottish approach to skills utilisation, which seeks to influence employers and other stakeholders based on the principles that: effective skills utilisation should ensure that workplaces are peopled by relevantly skilled individuals who are aware of the skills they possess and know how to best use them, in workplaces that provide meaningful and appropriate encouragement, opportunity and support for employees to use their skills effectively.

However, Findlay and Warhurst (2012) and Keep (2016) acknowledge that while there is strong support for this approach among the policy community, skills utilisation has yet ‘permeate the mainstream language of business’. Employers may be unaware of the practical benefits of improving skills use, or see the costs involved in redesigning jobs and workplace practices as prohibitive (Wright and Sissons, 2012). Or there may be limited incentives for employers to act on skills under-utilisation: in low value added markets dependent on low-skilled, labour intensive business models, employers may see little value in investing in innovation and improved skills deployment; while in the UK, institutionalised labour market flexibilities (supported by public policy that effectively subsidises low-paid, low-skilled work through the tax and benefits system) may mean that skills under-utilisation does not create challenging turnover or recruitment problems.

Keep (2016) argues for continued action on a range of fronts to drive progress on better skills utilisation, including: action to improve matching between the skills being developed within the education and training system and those required by employers; efforts to incentivise employers to move towards higher value added business models that require higher effective skills utilisation across the workforce; and strategies to encourage organisations to adopt workplace policies and practices that require and support employees to develop and deploy skills.

3f. European workplace innovation research

UK evidence suggests that better use of existing skills could enhance productivity, improve motivation and innovation, and diminish the waste of individual and public investments in human capital. One way is to link better use of skills and better deployment of people to innovative business outcomes. Workplace innovation research builds on the knowledge of HPWPs and of learning organisations, though focusing on innovation as a driver of performance, and intervening primarily through job redesign, work organisation and HR practice.

Workplace innovation has emerged as a key concept in international policy discussions on improving productivity (European Commission, 2014). An emerging workplace innovation literature hypothesises that a range of positive individual and organisational outcomes may be associated with a combination of variables linked to: work organisation; enabling organisational structures; practices that support reflection; and workplace partnership (Pot et al., 2016). The outcomes that these researchers posit as flowing from these elements of workplace innovation are somewhat ill-defined and range from amorphous concepts such as ‘an enabling culture’ and ‘a customer focus’ to higher levels of ‘employee engagement’. This extant workplace innovation research also explicitly seeks to build upon HPWP research, while perhaps taking insufficient account of broader workplace practices and structures and job design – indeed job content and team autonomy (two potentially important but distinctive factors facilitating innovation performance) tend to be seen by these researchers as interchangeable components within a single ‘element’ of workplace innovation (Oeij and Dhondt, 2016).

However, a more empirically informed literature has sought to firm up the evidence base on contextualised workplace practices and processes that support the specific outcome of innovation performance driven by employees. For example, successive waves of action research from Finland has identified the importance of workplace and job design and practices that support employee-driven innovation, defined as “the systematic participation of employees in ideation, innovating and renewing of products and services and ways of producing them, with a view to creating new solutions that add value to customers” (Alasoini, 2015: 44).

There is supportive research that firms that undertake complex innovation (both technical and organisational) gain a clear competitive advantage compared to those that undertake only technological innovation (Evangelista and Vezzani, 2010). A broader research base argues that workplace innovation strategies – and especially actions that create an ‘innovative work climate’ – can facilitate innovative work behaviours, defined as the behaviour of an individual that is intended to intentionally create, introduce, and apply new ideas, processes or products (Bos-Nehles et al., 2017). Recent analysis of cross-national data gathered as part of the European Company Survey identified a number of organisational practices and structures, and particularly approaches that encourage ‘decision latitude’ and reflexive learning as being associated with employee involvement and leadership in innovation (Eurofound, 2015). And a substantial and emerging body of research has explored the relationships between a range of HRM practices and approaches and workplace innovation. While findings are highly contextualised, a consistent theme focuses on the importance of networks within organisations (in the form of team structures or other mechanisms for voice and ideas-sharing) as a source of experiential learning and harvesting tacit knowledge (Shipton, 2017).

Firms’ approaches to workplace innovation are shaped significantly by broader institutional influences. Other countries with stronger relative productivity than Scotland – such as Germany, France, Finland and other Nordic countries not only score highly on practices that support workplace innovation but also have policy levers to support it as part of their work and economic development strategies, assisted by strong traditions of social partnership. Finland has embedded WPI in their *National Working Life Development 2020 Strategy* which has the objective of creating the best working life in the EU by 2020. France and Belgium are supporting innovative workplace practice as a particular response to maintaining the employment of older workers. Research from Finland’s Workplace Development Programme has suggested that high involvement practices that support co-operation across management and employees might be associated with higher levels of wellbeing and job satisfaction and perceived productivity gains. Research from the Netherlands reports similar findings. Workplace innovation can also deliver positive employee outcomes, such as retention, satisfaction and engagement (Findlay et al, 2015).

Yet some of the practices associate with workplace innovation are not pervasive in Scotland and the UK. In relation to the level of employee autonomy over task order, work methods and the pace of work, the UK ranks only just above the EU27 average; the use of problem solving groups has fallen; fewer than half of employees believed that management responded to employee suggestions; and only 34% of employees reported being allowed to influence decisions. Fewer UK employees (25%) report they have the scope to learn and problem-solve compared to an EU average of 39%.

In addition, more critical accounts reflect on workplace innovation initiatives where employees have been encouraged to share their learning, skills and knowledge to drive innovation (and thus enhance value creation) but where there appears little expectation that the value created will be shared (Beirne 2013). Indeed, in many of the workplace innovation analyses discussed above employees’ co-operation and active deployment of energies is taken for granted despite a lack of commitment to ensuring that they share in the benefits of improved workplace performance. As Findlay et al. (2018: 23) note: “There is a pressing need to analyse whether, and if so how and where, workplace

innovation can deliver for workers as well as for employers and thus deliver shared value through high job quality work that harnesses the human, social and intellectual capital of the workforce”.

3g. Fair, innovative and transformative work

Academics, government and agency partners in Scotland have developed approaches to building fair, innovative and transformative work (FITwork) that reflects the inclusive growth agenda in the workplace. Our own review of evidence on what supports ‘fair, innovative and transformative work’ (FITwork) suggests that there is a relationship between workplace practices, processes and structures on the one hand; and innovation-oriented behaviours and outcomes on the other (Findlay et al., 2016a). Central to FITwork is a focus on workplace and management practices that address worker ability, motivation and opportunity; address value creation and capture; and align individual, business and societal interests.

The ‘FITwork’ framework for understanding workplace innovation arguably provides substantial advantages over preceding models. First, it focuses more clearly and specifically on the relationship between workplace design, systems and practices and employees’ experiences and performance, rather than relying on conceptually fuzzy ‘elements’ of workplace innovation whose inter-relationships remain unclear. Second, there is a more robust empirical and theoretical underpinning to the FITwork approach. Specifically, this approach can be seen as connecting with mutual gains theories of workplace and employment relations. The argument here is that by arranging workplace design and workforce-management relations on collaborative grounds, organisations can deliver gains that are distributed to multiple stakeholders (Kochan and Osterman, 1994). This thinking reflects a shift in the structure and design of many organisations (Appelbaum et al., 2000) towards “flexible, innovative and dynamic structures in which employees have increased discretion and voice” (Avgar and Owens, 2014: 332). For organisations, potential benefits accrue through improvements in labour productivity and profitability, while for employees they arise through intrinsic rewards related to engaging in enjoyable work, controlling their own working environment and voice in decision making processes.

More specifically, the FITwork framework allows for the exploration of the impact of a range of potentially inter-connected areas of workplace practice and clearly defined sought outcomes in terms of employee-driven innovation (Hoyrup, 2012), discretionary behaviours around collaboration and problem-solving (Boxall and Purcell, 2016) and employee experiences of fair work (Fair Work Convention, 2016). The FITwork framework provides a way to explore these inter-connections and broader positive organisational outcomes in terms of businesses’ capacity to innovate. Findlay et al. (2016a, 2016b) are specifically interested in seven areas of workplace practice and design that are potential antecedents of valued workplace innovation outcomes.

- **How organisations are structured:** Organisational structures that support internal communication can facilitate the dispersion and cross-fertilisation of ideas and practices, whereas strongly hierarchical organisational structures can inhibit the flow of innovative ideas (Damanpour, 1991; Adams et al., 2006; Findlay et al., 2016a).
- **How people are managed:** HR policies and practices, and especially tailored skills development and opportunities for ‘exploratory learning’ on and off the job, have been identified as being associated with innovative behaviours and performance (Shipton et al. 2006; Shipton, 2017).
- **Approaches to decision making:** The way that decision making and power are distributed can play a role in empowering or excluding employees from innovation processes. There is evidence that participatory work environments and mechanisms for employee voice are associated with higher levels of innovative behaviour (Beugelsdijk, 2008; Findlay et al., 2016a).

- **Approaches to external networks:** Environment scanning and extra-organisational relationships can bring in new ideas and inform ways of working. There is evidence that more innovative organisations report broader engagement with their external business environment (Meuer, 2016). Organisations that invest in open innovation networks and empower employees across different levels to generate and share information from outside the organisation may gain in terms of innovative capacity (Findlay et al., 2016a).
- **How work and internal support systems are designed:** There is evidence that jobs associated with high levels of autonomy, skill variety and feedback support innovation and foster creativity (Beugelsdijk, 2008). Workplace support mechanisms also appear to have an important role to play – employees need to feel supported (through opportunities to learn and participate) in order to cope with, and benefit from, change processes (Van den Heuvel et al., 2010).
- **Organisational support for enterprising behaviours:** There is evidence that an organisation's routines, the way it learns from past experiences, and how individuals think about taking calculated risks can all be critical for supporting enterprising attitudes among employees. Organisations that think about, plan for, and support employees in calculated, 'bounded' risk-taking and experimentation have reported benefits in terms of individual innovative work behaviours (Janssen, 2003; Tims et al., 2012).
- **Organisational approaches to fair work:** Findlay et al. (2016b: 2) argue that "a substantial evidence base points to a relationship between job quality and the extent to which employees feel fairly treated, on the one hand, and their levels of engagement and potential to innovate, on the other". A distinctive feature of the 'FITwork' approach is therefore to make the explicit link between fair work and workplace innovation, pointing to an evidence base that good job quality can bring benefits in terms of individual performance, flexibility and willingness to change, and therefore employee engagement in innovation.

Findlay et al. (2016a) have presented evidence that these workplace structures, process and practices appear to be linked to distinctive individual and organisational-level benefits related to: employee-driven innovation (where there is evidence of employees being empowered to voice, lead and implement new ideas and ways of working), and discretionary behaviours supporting innovation (where employees help each other to resolve problems and identify better ways of working), and that these employee level outcomes are often detected in organisations reporting higher levels of innovation performance. Findlay et al.'s (2016a) research also demonstrates that specific fair work practices are associated with positive experiences among employees in relation to the respect, voice and other aspects of fair work and job quality

At the centre of the FITwork framework (Findlay et al., 2016a) – and indeed Fair Work Framework's conceptualisation of fair work and workplace innovation (Fair Work Convention, 2016) – is the nexus between organisational stakeholders' ability, motivation and opportunity (AMO). AMO theory has grown increasingly influential among strategic HRM researchers seeking to share lessons on 'what might work' in improving innovation performance among employees (Appelbaum et al., 2000). While these researchers eschew listing a standardised set of 'best practices', they argue that work organisation and workplace practices can be shaped within specific organisational contexts to maximise the potential for employees to innovate and perform well (Bos-Nehles et al., 2018). As the OECD (2017: 26) notes, this "well-established theory of employee performance" [argues that] "increasing the innovative capacity of the workforce requires addressing employees' ability and their motivation to innovate, and giving them the opportunity to put these abilities and motivation to work".

Specifically, the argument is the employees and managers need:

- **Ability:** Employees need to have the skills and capabilities to contribute to organisational objectives, so that organisations need to ensure that appropriate skill sets are identified and recruited, and that employees have access to appropriate formal and informal training and learning opportunities. Within the specific context of workplace innovation, research for the OECD (2011) suggests that HRM strategies need to focus on: subject-specific skills and technical and/or occupational knowledge; thinking and creativity skills, which might involve “the ability to look across seemingly disparate data, cases, problems and processes to identify common threads and connect the dots and to identify problems and develop creative solutions” (OECD, 2017: 32).
- **Motivation:** Employees need incentives (that might range from employment security, information sharing, internal promotion opportunities, or monetary incentives) to encourage participation. While there are personality-influenced and relational influences on motivation, there is substantial evidence on how work environment factors, job and task design and organisational norms shape motivation (Mumford, 2000). Specifically, there is evidence that intrinsic motivation levels among employees tend to be associated positively with job design elements such as autonomy, task identity (employees’ sense of ownership of the whole of their work tasks, and the meaning they take from completing tasks), and feedback (access to information from colleagues, managers or other stakeholders on their performance and the impact of their work) (Foss et al., 2009). In addition, instrumental or extrinsic motivation – based on how workers’ share in value capture - remains an important component of the employment relationship.
- **Opportunity:** Jobs must provide opportunity to participate (e.g. autonomy, control, time and space for critical reflection and ideas sharing; and team structures that allow for collaboration and mutual learning, communication and voice). As well as these job design and workplace context factors, there are implications for other areas of HR practice – recruitment and selection needs to ensure that people are matched to jobs that fit their skills and provide a level of challenge that demands creativity and innovation (Anderson et al., 2018). Finally, access to resources is important – the opportunity to innovate is dependent on employees having the physical and technology infrastructure and time and space to engage in collaboration, problem-solving and idea generation.

The AMO framework has been considered by many researchers to be a useful tool for understanding the HRM-performance link or, in other words, opening the so-called ‘black box’ (Purcell et al., 2003). However, there remains debate as to how the A, M and O components of the framework align and interact. Early advocates such as Boxall and Purcell (2003) saw AMO as an additive model so that each variable may have a direct and independent impact on employees’ performance. More recent empirical studies suggest complex inter-relationships (Bos-Nehles et al., 2018). For example, Kellner et al.’s (2016) research with healthcare managers found that ability and motivation levels mutually influenced each other, while opportunity variables also affected motivation.

Perhaps most importantly, in common with the FITwork approach discussed above, employees’ discretionary behaviours are seen as the key link between AMO variables and performance in terms of individual and organisational effectiveness and innovation (Purcell et al., 2003). In the mainstream HRM literature, the focus is on how AMO can facilitate discretionary effort – ‘going the extra mile’ for the organisation (Boxall and Purcell, 2016) – whereas, as noted above, Findlay et al. (2016a) are more interested in specific discretionary behaviours linked to innovation performance, such as engaging in collaborative problem-solving or proactively sharing learning and solutions from the frontline with colleagues and managers.

3h. Policy influence on progressive workplace issues;

The key challenge facing Scotland's agencies is to mainstream workplace innovation practices across a broader population of Scotland's businesses. As noted above, the FITwork approach to workplace innovation and fair work is rooted in the theory of mutual gains employment relations, which argues for collaborative approaches to value creation and a greater right to, and share of, value capture for employees. Kochan and Osterman's (1994) key line of argument was that mutual gains approaches can generate competitive advantage and thus deliver value/gains for multiple stakeholders, including employees. However, the evidence is mixed on the outcomes delivered by organisations claiming to follow a mutual gains approach (Whyman and Petrescu, 2014). In the UK's liberal market economy, the capacity of organisational strategies to deliver mutual gains may be shaped or constrained by a range of sectoral and labour market factors. Within this context, critics of the claims made by mutual gains advocates have suggested that there is limited evidence of substantial benefits for workers (Kelly, 2004). Bélanger and Edwards (2007) argue that sustainable mutual gains arrangements require supporting conditions in terms of 'beneficial constraints' (for example, where regulation or other forms of state intervention contain some market pressures, or where particular market conditions incentivise employers to support mutual gains). Such conditions may prove elusive in many UK product and labour markets, and there is little evidence of state intervention to encourage high value added business models (other than the efforts of the Scottish Government and its partners to exercise 'soft' influence) to shape employer thinking on fair work and workplace innovation.

More generally, while policy agendas encouraging workplace innovation and skills utilisation have begun to consider different approaches to value creation, issues of value capture and sharing have been far less prominent. Legislative and policy changes such as the introduction of the National Living Wage at UK level and government support for 'real' Living Wage accreditation in Scotland have had some impact on low pay, but policy action on related issues such as the gender pay gap and pay inequalities driven by the rapid growth of executive remuneration has been limited. Meanwhile, across many advanced economies, the proportion of national income made up by labour compensation has declined since the 1980s, feeding into income inequalities (ILO and OECD, 2015). While some of this decline in 'labour share' can be linked to sectoral and technological changes, there is evidence that the weakening of labour market institutions, and especially the declining bargaining power of workers, has been crucial (ILO and OECD, 2015).

4. Resilient economy, wider systems and workforce

Supporting workplace innovation may also contribute to resilience at workplace, sectoral and economy-level. Since the Great Recession, there has been increasing interest in the concept of resilience. At workplace level, much of the focus has been on individual employee resilience in the face of turbulent, challenging or rapidly changing organisational or business environments. The UK Government's Fit For Work service defines resilience as "ability of a person to: adjust to adversity; maintain their equilibrium; hold on to some sense of control over their environment; move forward in a positive manner" (Fit For Work, 2017: 1). However, concerns have been raised that such definitions can tend towards understandings where the agency for resilience is located solely with the individual, as a trait of the person demonstrating it: "this may lead to unease around the concept for those with an awareness of structural influences on both behaviours and outcomes" (Glasgow Centre for Population Health, 2014: 2). The Chartered Institute for Personnel and Development has offered guidance to HRM professionals on workplace strategies for resilience that focuses on elements of job design and organisational environment, but also on the role of leaders within organisations (CIPD, 2011).

- **Job design** – resilience is dependent on the features of a person’s job role, that is, how demanding the person’s job is, how much control they have in their job, what type of motivators or rewards (internal and external) are associated with a particular job.
- **Organisational culture and structure** – the culture of the organisation and way the organisation adopts work processes and procedures are seen as central to resilience. For example, if an organisation has a bureaucratic structure coupled with a command and control culture, this may be detrimental to the extent to which people within the organisation are able to respond and adapt to challenges.
- **Leadership** – emergent leadership (leadership from middle managers) and engaging, supportive leadership styles may heavily influence the ability of employees to be resilient to adverse events: leaders are the stewards of organisational resilience... they inspire or demoralise others, first by how effectively they manage their own energy and next by how well they manage, focus, invest and renew the collective energy [resilience] of those they lead.
- **Systemic/external environment** – the external environment and social relationships are seen to be key to resilience. If networks of successful relationships are not established, both for employees and for the organisation itself, the organisation may not have the resources to adapt to change effectively and positively. Social and institutional support is seen as key at every level.

Organisational researchers tend to focus not just on the characteristics of individuals and their capacity to absorb and/or bounce back from shocks but also the ‘positive adaptability’ of organisations to innovate in their structures, functions and ways of working, to ‘bounce forward’ in anticipation of, or response to, challenges (Davoudi and Porter, 2012). This positive form of resilience addresses some of the common critiques of the concept of resilience – that it privileges a ‘return to normal’ which is assumed to be a normative good, and assumes that markets are self-correcting and that individuals and organisations should be charged with taking agency in responding to crisis (Martin and Sunley, 2015).

It has been suggested that ‘high reliability organisations’ offer potentially valuable lessons on fostering organisational resilience. High reliability organisations tend to operate in complex, demanding environments where reliability and safety are paramount (commercial aviation is an oft-cited example). There is evidence that organisations operating in less safety-critical environments have sought to draw on lessons from the practice of such high reliability organisations (Weick and Sutcliffe, 2007). Resilience-oriented organisational practice in this space tends to focus on: extensive skills (and skills deficits) mapping activities; mechanisms to voice and discuss lessons from errors; sharing good practice on identifying and communicating threats to the organisation; collaboration on designing alternatives to normal job roles and work activities; and practices to help pool collective expertise to resolve problems. There is evidence that where teams engage in such high reliability practices, performance in responding to problems is improved (Oliver et al., 2017).

An emerging research agenda also seeks to deploy resilience with reference to inclusive growth and economic development strategies. Among others, Martin et al. (2013) have sought to refine how resilience can be understood as part of economic development and growth strategies, identifying four key themes:

- resilience as the capacity to resume form and function elastically following a disturbance;
- resilience as the capacity and pace of a ‘bounce-back’ to [a] pre-shock state or path;
- resilience as ‘ability to absorb’ shocks and maintain ‘stability of structure and function’;

- resilience as ‘robustness’ –the capacity to maintain core system performance through ‘adaptability of structure and function’.

Within this context, resilience might be understood as: “the capacity of a regional or local economy to withstand or recover from market, competitive and environmental shocks to its developmental growth path, if necessary by undergoing adaptive changes to its economic structures and its social and institutional arrangements, so as to maintain or restore its previous developmental path, or transit to a new sustainable path characterised by a fuller and more productive use of its physical, human and environmental resources” (Martin and Sunley, 2015: 4). In terms of how a discussion of business models connects with this agenda, it has been argued that the resilience of spatial economies is likely to be a function of ‘compositional forces’ (the mix, size, type and ownership of businesses), which are in turn closely interrelated with ‘collective factors’ (relationships and connectivity among and between firms and labour markets). Finally, ‘contextual factors’ interact with both composition and collective processes (Martin et al., 2013).

The same evidence base, while acknowledging that regional and labour market contexts differ, suggests that there may be a number of potential facilitators of resilience at local and national economy-level (Martin and Sunley, 2015).

- **Structural diversity** is generally considered to enhance robustness, and the scope for adaptive reorganisation, whereas sectoral specialisation based on a narrow economic base, increases susceptibility to idiosyncratic sector-specific shocks, and limits opportunities to re-orientation and adaptive recovery.
- **Modularity**, or the degree to which different sectoral or organisational components of an economy and its functions are separable, or only weakly interlinked, can be an effective mechanism for containing shocks.
- **Structural redundancy**, or the extent to which certain sectors or firms can substitute for one another if some fail, and the extent to which a region’s resources can be put to related or alternative uses is important to economic resilience.
- **Related variety**, meaning complementarities among subsets of sectors (for example, similar knowledge or material inputs) that may enhance the adaptability of a local economy by facilitating the transferability of resources from one subset to another and promoting innovation in the process.
- **Diversified specialisation** across a number of sectors, whereby there are clusters of innovative activity within specialised sectors, but a degree of diversification spreads the risk and affords greater resistance to shocks.

Finally, public policy and local economic governance arrangements are likely to be important to both economic resilience and innovation performance: “a region with an activist policy authority committed to constantly enhancing and fostering local economic investment, entrepreneurship, technological innovation, the attraction of skilled labour and infrastructural improvement, is not only likely to contribute to that region’s long-run growth rate but also to its resource base and capability to recover from unexpected shocks and perturbations to its economy” (Martin and Sunley, 2015: 5). Similarly, the strength and effectiveness of local business networks, HE and training institutions, business support services and other components of the economic governance architecture – and the capacity of key stakeholders to form a collective and forward-looking strategic position – may shape an economy’s resilience.

5. Conclusions

Driving productivity and growth is a key priority for the UK and Scotland, and there is an urgent need to address the 'productivity puzzle' for the benefit of our economy and society. Scotland's inclusive growth agenda provides an important focus on how we can address economic and social priorities by thinking about how value is created and distributed. What happens in the workplace, and the labour of Scotland's workers is fundamental to this. This recognition underlies important policy agendas on workplace innovation and fair work in Scotland. Clearly, if the workplace is fundamental to value creation and distribution, then the choices made by employers and the business models that they adopt matter. Some employers' emphasis on maximising shareholder value significantly in the short-term has not been helpful in driving productivity and innovation, and has neglected to consider how the value created by workers should or could be shared with them. We know from other economies that stakeholder-oriented business models may be more effective at sharing value and driving inclusive growth. There is a need to consider how best to support the consideration of a broader range of business models within the Scottish economy.

However, even within existing business models, there is considerable latitude for employers to make choices that can support or constrain people's ability to access fair work and participate and innovate in the workplace. Accordingly, we need to be alert to the possibility of transferring good practice from evidence bases on high performance work practices, high involvement approaches, lean management, workplace innovation and other strategies around workplace and job redesign. Perhaps the blind spot in these strategies is their continuing focus on innovative approaches to value creation, but their limited awareness that value sharing and distribution also matters. The Scottish Approach, which seeks to link workplace innovation with fair work as part of a broader strategy for economic resilience and inclusive growth, provides a useful starting point for discussions of future policy priorities. Building on this framework, and thinking about how to promote resilience at the workplace, organisation and local and national economy level, must be a priority for Scottish policy makers.

Throughout this document, we have suggested a number of priority areas for policy discussion. Scotland is well placed to lead the debate on how best to develop policy to support business models for fair work and workplace innovation. Building on our shared interest in how workplace innovation and fair work can deliver value and mutual gains for investors and businesses, leaders and employees, economy and society, there is an opportunity to make a key contribution to the next steps in our nation's journey towards inclusive growth.

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